

# **THE LEONARD LETTER**

*January 3, 2005*

## **QUOTE OF THE WEEK**

*“Associate yourself with men of good quality if you esteem your own reputation for ‘tis better to be alone than in bad company.” --- George Washington*

## **UNDER THE DOME**

### **\*\*\*Tax Attacks Begin\*\*\***

The celebration of New Year brings with it much that is familiar: the Rose Parade, resolutions to lose weight, the legislature’s attempts to raise your taxes. Senator Escutia is again attempting to raise taxes on non-residential property, and Assemblywoman Chang is again seeking to add 10- and 11- percent brackets to state income taxes. Escutia also has a bill to limit tax credits. Assemblyman Ruskin has a proposal to increase corporate taxes by taxing their overseas’ income. They are piling onto the Legislative Analyst’s recommendations last month to increase fees and the gas tax, as well as institute parcel taxes. The Democrats are poised to do battle with Governor Schwarzenegger who has maintained his opposition to tax increases. The taxers simply do not understand that the state’s economy cannot tolerate more takings.

### **\*\*\*Tax Leadership\*\*\***

While the plethora of new tax proposals is dismaying there is some good news from the legislature’s tax committees. The new Chairman of the Assembly Revenue and Taxation Committee is Johan Klehs, and the new Chair of the Senate Appropriations Committee is Carole Migden. Both are veterans of the Board of Equalization. I say this is more good news than bad because on one hand they will continue to defend the worthy idea of an elected tax board to bring justice to taxpayers. However, if the taxing agency tries to push any questionable ideas, they both will have the wisdom that experience brings to demand the BOE fully justify itself. I, for one, like it.

### **\*\*\*How Can You Give Away What Is Not Yours?\*\*\***

Last week the Los Angeles Times unveiled a hit piece campaign against the Board of Equalization charging that we had given away tax dollars to companies that paid no taxes. By selecting only certain facts, the article presented a skewed and inaccurate story. The issue concerns the Manufacturers Investment Tax credit. This tax credit was passed into law to encourage manufacturers to buy more production equipment for their

California operations. The credit was limited to 6% of the purchase price of the equipment, so the state was saying that if manufacturers came up with 94% of the money to buy the equipment then the state would credit their taxes for the remaining 6%. Personally, I think this is a good incentive for manufacturing and manufacturing jobs in California.

The other twist in the law is that the taxpayer could choose to take this credit as a refund of their income taxes or a refund of their sales taxes. Hundreds of companies have chosen to take this credit from their income taxes without controversy. However, the government auditors have resisted allowing taxpayers to take this credit against their sales taxes. This is the substance of the so-called “give away.” All these companies paid their sales taxes. California, unlike many states, charges full sales taxes on manufacturing equipment, which means that to locate machinery in California you have to pay an average of 8% OVER the purchase price in sales taxes. The credit law would have given a 6% refund so the taxpayer never comes out ahead when compared to other states.

The Board of Equalization voted to honor the credits against the sales taxes paid for these companies that have chosen to expand their businesses in California despite all of our anti-business laws and regulations. My premise is that taxpayers should pay ever penny they owe to the government, but I will help them to make sure that they never pay one penny more than that.

## **ECONOMIC OUTLOOK**

### **\*\*\* Economic News\*\*\***

Another interesting take on December's job report from the Federal Bureau of Labor Statistics is offered by Gene Epstein at Baron'sOnline. Epstein notes a stunning change in the unemployment numbers. The Bureau reports that the nation's unemployment rate (payroll survey) in November ran at 5.4%, down from 6.3% in the middle of 2003. Both the main stream media and Wall Street looked at fed's report and the number of jobs created and decided 112,000 new jobs was anemic. The stock market sold off on the news. Epstein believes these “sluggish” numbers foretell a significant demographic trend-- not because the economy is lethargic, but because fewer Americans are interested in working. Remember, the unemployment number indicates the percentage of Americans who are actively looking for a job that have not found one. It does not count those who do not want a job. Epstein found that the number of people in America who are not in the labor force by choice is at 34% -- a 16-year high. Thus, the share of Americans looking for work is no higher now than in 1999-2000. The old rule of thumb was that the economy needed to create at least 150,000 new jobs every month to keep the unemployment rate from rising. According to a study by the Atlanta Federal Reserve, the bar is now only 98,000 new jobs a month needed to keep employment steady.

According to Epstein, there is more than one cause of this voluntary exodus from the labor force. One thing is that more people in the 16-24 year-old group say they are going to school instead of working. Also, more women are spurning the workplace for home. By 2002, the child-bearing rate among 30-44 year olds was up 23% from 1995. Whatever the reasons, this signals an increasingly prosperous America that can afford to spend more time on activities outside of work.

## **MISCELLANY**

### **\*\*\*A Good Read\*\*\***

Last summer the NEA issued “Reading at Risk, which discussed the dangers our country faces by our declining rates of reading. The study documented a decline of 10% in literary reading population between 1982 and 2002 and noted that for the first time in modern history, fewer than half of the adult population in the U.S. reads literature. Just over 56% read any book, literature or otherwise. In the report’s introduction, NEA Chair Dana Gioia wrote, “Reading is not a timeless, universal capability. Advanced literacy is a specific intellectual skill and ...as more Americans lose this capability, our nation becomes less informed, active and independent minded.” The report not only explains the individual, intellectual skills readers hone, but also finds that readers are more active in their communities, as volunteers and philanthropists. Thus, the Leonard Letter in 2005 will highlight some of the best books you can read. I welcome your nominations for recommendations. I begin with a list of biographies assembled by 21 scholars assembled by Human Events.

The first recommendation is *The Education of Henry Adams* by Henry Adams. Adams examined his own intellectual journey and made keen observations about the U.S. education system, most memorably that “The chief wonder of education is that it does not ruin everybody concerned in it, teachers and taught.” Adams’ stunning use of the English language and his social commentary make this a good starting point for your own renewed intellectual journey.

## **BOE AND LEGISLATIVE DATES**

**January 3, 2005** --- Legislature reconvenes.

**January 5, 2005** --- Governor delivers State of the State address.

**January 6, 2005** --- The Congress meets in joint session to count the electoral votes (unless Congress passes a law to change the date).

**January 10, 2005** --- Governor’s proposed budget due.

**January 17, 2005** --- Martin Luther King, Jr. Day.

**January 20, 2005** --- Presidential Inauguration.

**January 25, 2005** --- BoE meets in Sacramento.

**February 8, 2005** --- BoE meets in Sacramento.

**February 14, 2005** --- Abraham Lincoln's birthday observed.

**February 21, 2005** --- George Washington's birthday observed.

## **NOTABLE DATES/ HISTORY**

**January 3, 1750** --- Tax revolt occurred in Haarlem, Netherlands.

**January 3, 1847** --- The California town of Yerba Buena was renamed San Francisco.

**January 4, 1982** --- The Golden Gate Bridge was closed for the third time by a fierce storm.

**January 5, 1998** --- Congressman Sonny Bono died in a skiing accident in Lake Tahoe, California, at age 62.

**January 5, 1996** --- The longest U.S. government shutdown ended after 21 days when Congress passed an interim spending measure allowing federal employees to return to work.

**January 6, 1838** --- Samuel Morse made his first public demonstration of the telegraph.

**January 6, 1941** --- President Franklin D. Roosevelt delivered his "4 Freedoms" speech (speech, worship, from want and from fear).

**January 6, 1987** --- Astronomers at University of California saw the birth of a galaxy for the first time.

**January 7, 1789** --- The first national election was held in the U.S. to elect a President.

**January 8, 1957** --- Jackie Robinson announced his retirement from baseball.

**January 9, 1847** --- The California Star, San Francisco's first newspaper, was published.

**January 9, 1857** --- A 7.9 earthquake shook Fort Tejon, CA.

**January 9, 1942** --- The U.S. Joint Chiefs of Staff was created.

## GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115  
TDD service for the hearing impaired  
TDD phones: 800-735-2929  
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

## HOW TO CONTACT ME

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